

And what is this if not the beginnings of a World Reserve Bank? Are Keynesian dreams at least beginning to come true?

Liberty and Property

Ludwig von Mises

The pre-capitalistic system of production was [based on] military conquest. The victorious kings had given the land to their paladins. These aristocrats were lords in the literal sense of the word, as they did not depend on the patronage of consumers buying or abstaining from buying on the market. On the other hand, they themselves were the main customers of the processing industries which under the guild system were organized on a cooperative basis.

This scheme was opposed to innovation. It forbade deviation from the traditional methods of production. The number of people for whom there were jobs even in agriculture or in the arts and crafts was strictly limited. Under these conditions, many a man, to use the words of Malthus, had to discover that at "nature's mighty feast there is no vacant cover for him," and that "she tells him to be gone." But some of these outcasts nevertheless managed to survive, begot children, and made the number of the destitute grow hopelessly more and more.

But then came capitalism.

It is customary to see the radical innovations that capitalism brought about as substitution of the mechanical factory for the more primitive and less efficient methods of artists and shops. This is a rather superficial view. The characteristic feature of capitalism, that distinguishes it from pre-capitalistic methods of production, was its new principle of marketing.

Capitalism is not simply mass production, but mass production to satisfy the needs of the masses. The arts and crafts of the good old days had catered almost exclusively to the wants of the well-to-do. But the factories produced cheap goods for the many. All that the early factories turned out was designed to serve the masses, the same strata that worked in the factories. They served them either by supplying them directly, or indirectly by exporting, and providing for them foreign food and foreign raw materials.

This principle of marketing was the signature of early capitalism as it is of present day capitalism. These employees themselves are the customers consuming the much greater part of all goods produced. They are the sovereign customers who are always right. Their buying or abstention from buying determines what has to be produced, in what quantity, and of what quality. In buying what suits best they made some enterprises profit and expand and made other enterprises lose money and shrink. Thereby they are continually shifting control of the factors of production into the hands of those businessmen who are most successful in filling their wants.

Under capitalism, private property of the factors of production is a social function. The entrepreneurs, capitalists, and land owners are mandatories, as it were, of the consumers, and their mandate is revocable. In order to be rich it is not sufficient to have once saved and accumulated capital. It is necessary to invest it again and again in those lines in which it best fills the wants of the consumers. The market process is a daily repeated plebiscite, and it ejects inevitably from the ranks of profitable people, those who do not employ their property according to the orders given by the public.

Big business, the target of fanatical hatred on the part of all contemporary governments and self-styled intellectuals, acquires and preserves bigness only because it works for the masses. The plans that cater to the luxuries of the few, never attain big size.

The shortcoming of 19th-century historians and politicians was that they failed to realize that the workers were the main consumers of the products of industry. In their view, the wage earner was a man toiling for the sole benefit of a parasitic leisure class. They labored under the delusion that the factories had impaired the lot of the manual workers. If they had paid any attention to statistics, they would have easily discovered the fallaciousness of their opinion. Infant mortality dropped. The average length of life was prolonged. The population multiplied, and the average common man enjoyed amenities of which even the well-to-do of earlier ages did not dream.

However this unprecedented enrichment of the masses was merely a by-product of the industrial revolution. Its main achievement was the transfer of economic supremacy from the owners of land to the totality of the population. The common man was no longer a drudge, who had to be satisfied with the crumbs that fell from the tables of the rich. The three pariah castes which were characteristic of the precapitalistic ages—the slaves, the serfs, and those people whom patristic and scholastic orders, as well as British legislation from the 16th through the 19th century, referred to as the poor—disappeared. Their scions became, in this new setting of business, not only free workers, but also customers. This radical change was reflected in the emphasis laid by business on markets. What business needs first of all, they repeated again and again, is markets and again markets. This was the watchword of capitalistic enterprise.

Markets mean patrons, buyers, consumers. There is under capitalism one way to wealth: to serve the consumers better and cheaper than other people do. But in the shop and factory, the owner—or in the corporations, the representative of the shareholders, the president—is the boss. The mastership is merely apparent and conditional. He is subject to the supremacy of the consumer. The consumer is king—the real

boss—and the manufacturer is done for if he does not outstrip his competitors in best serving the consumers. It was this great economic transformation that changed the face of the world. . . .

What vitiates entirely the socialist economic critique of capitalism is its failure to grasp the sovereignty of the consumers in the market economy. They see only hierarchical organization of various enterprises and plans, and are at a loss to realize that the profit system forces business to serve the consumers.

In their dealings with their employers, the unions proceed as if malice and greed prevent what they call management from paying higher wage rates. Their shortsightedness does not see anything beyond the doors of the factory. They and their henchmen talk about the concentration of economic power, and do not realize that economic power is ultimately vested in the hands of the buying public, of which the employees themselves form the immense majority. Their inability to comprehend things as they are, is reflected in such inappropriate metaphors as industrial kingdoms and dukedoms. They are too dull to see the difference between a sovereign king or duke who could be dispossessed only by a more powerful conqueror, and the chocolate king who forfeits his kingdom as soon as the customers prefer to patronize another supplier.

This distortion is at the bottom of all socialist plans. If any of the socialist chiefs had tried to earn his living by selling hot dogs, he would have learned something about the sovereignty of the consumers. . . .

Socialism substitutes the sovereignty of the dictator, or committee of dictators, for the sovereignty of the consumers. . . . Freedom is indivisible. He who has not the faculty to choose among various brands of canned food or soap, is also deprived of the power to choose between various political parties and programs and to elect the office-holders. He is no

longer a man; he becomes a form in the hands of the supreme social engineer. . . .

The socialists have engineered a semantic revolution in converting the meaning of terms into their opposite. . . . Freedom implies the right to choose between assent and dissent. But in Newspeak it means the duty to assent unconditionally, and the strict interdiction of dissent. This reversal of the traditional connotation of all words of the political terminology, is not merely a peculiarity of the language of the Russian communists, and their fascist and Nazi disciples. The social order that in abolishing private property deprives the consumers of their autonomy and independence, and thereby subjects every man to the arbitrary discretion of the central planning board, could not win the support of the masses if it were not to camouflage its main character.

The socialists would have never duped the voters if they had openly told them that their ultimate end is to cast them into bondage. For exoteric use, they were forced to pay lip-service to the traditional appreciation of liberty. It was different in the esoteric discussions among the inner circles of the great conspiracy. There the initiated did not dissemble their intentions concerning liberty. . . .

Freedom is to be found only in the sphere in which government does not interfere. Liberty is always freedom from the government. . . . In a free country nobody is prevented from acquiring riches by serving the consumers better than they are served already. What he needs is only brains and hard work. . . . Economic power, in the market economy, is in the hands of the consumers. . . . But the politicians and other would-be reformers see only the structure of industry as it exists today. They think that they are clever enough to snatch from business control of the plans as they are today, and to manage them by sticking to already established routine. But the ambitious newcomer, who will be the tycoon of tomorrow, is already preparing plans for things unheard of before. All they have in mind is to conduct affairs along tracks already beaten.

There's no record of an industrial innovation contrived and put into practice by bureaucrats. If one does not want to plunge into stagnation, a free hand must be left to those, the unknown men, who have the ingenuity to lead mankind forward on the way to more and more satisfactory conditions. . . . Private property of the material factors of production is not a restriction of the freedom of all other people to choose what suits them best. It is, on the contrary, the means that assigns to the common man, in his capacity as a buyer, supremacy in all economic affairs. It is the means to stimulate a nation's most enterprising men to exert themselves to the best of their abilities in the service of all of the people. . . .

It is a gratuitous pastime to belittle the material achievements of capitalism by observing that there are things that are more essential for mankind than bigger and speedier motorcars, and homes equipped with central heating, air conditioning, refrigerators, washing machines, and television sets. . . . It is not the fault of capitalism that the masses prefer a boxing match to a performance of Sophocles's *Antigone*, jazz music to Beethoven symphonies, and comics to poetry. But it is certain that by precapitalistic conditions, as they still prevail in the much greater part of the world, makes these goods things accessible only to a small minority of people. Capitalism gives to the many a favorable chance of striving after them. . . .

We are inaugurating tonight the ninth meeting of the Mont Pelerin Society. It is fitting to remember on this occasion that meetings of this kind in which opinions opposed to those of the majority of our contemporaries and to those of their governments are advanced, are possible only in the climate of liberty and freedom that is the most precious mark of Western civilization. Let us hope that this right to dissent will never disappear.*

*The Institute thanks Margit von Mises for her gracious permission to print excerpts from this 1957 talk. *ed.*